

f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

Report Structure

31. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the audit procedures in the form of findings, including dollar amounts, resulting from application of the audit procedures. The practitioner shall include in the report all the information required to be included in the report by the procedures and any further information required by the Oversight Team subject to the provisions of paragraph 3. The practitioner must avoid vague or ambiguous language in reporting the findings and shall describe in the final report all instances of noncompliance noted or disclosed by Verizon during the engagement and not covered by the performance of these procedures. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

- a. A title that includes the word independent.
- b. Identification of the specified parties.
- c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.
- d. Identification of Verizon as the responsible party.
- e. A statement that the subject matter is the responsibility of the responsible party.
- f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or as directed by the Bureau or the Commission, as specified in paragraph 3.
- g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA.

- h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.
- i. A list of the procedures performed (or reference thereto) and related findings.
- j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.
- k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over Verizon.
- l. A description of any limitations imposed on the practitioner by the BOC/ILEC or any other affiliate, or other circumstances that might affect the practitioner's findings.
- m. A description of the nature of the assistance provided by specialists and internal auditors.

VERIZON COMMUNICATIONS BIENNIAL ENGAGEMENT PROCEDURES

Procedures for the Former GTE Companies

Throughout the procedures which follow, reference is made to the '272 affiliate'. Since Verizon has more than one '272 affiliate', the agreed upon procedures must be performed on all 272 affiliates, unless specified otherwise in the procedures.

- A. For Objectives VIII through XI, where the procedures refer to "ILEC", the practitioner will perform the procedures only in states that the BOC received 271 authority as of the engagement period.
- B. For the following 272 affiliates: CICI, TCI, QUE, CANTV and TNZ USA,
 - 1. Obtain and provide to the Oversight Team InterLATA revenue and number of InterLATA customers data for each state served by the former Bell Atlantic and NYNEX, as of December 31, 2000, 2001, and September 30, 2002. The Oversight Team will review this information and determine what other procedures might need to be performed besides those indicated below.
 - 2. Inquire of management for each of the above affiliates, obtain representation letters, and disclose in the report the answers to the following questions for the engagement period:
 - a. Were there any changes in the company's certificate of incorporation, bylaws, and articles of incorporation, or any "doing business as" (DBA) name change, since the last engagement period?
 - b. Did any Verizon BOC/ILEC perform operations, installation, and maintenance functions over facilities either owned or leased by the affiliate?
 - c. Did the company perform operations, installation, and maintenance functions over facilities either owned or leased by a Verizon BOC/ILEC?
 - d. Did any Verizon BOC/ILEC perform research and development activities on behalf of the affiliate?
 - e. Were there any facilities owned jointly with a Verizon BOC/ILEC?

- f. Was the company's general ledger linked in any way (outside of linkage at corporate headquarters for consolidations) to the general ledger of any Verizon BOC/ILEC?
- g. Did the company maintain any books, records, or accounts that were not separate from those of any Verizon BOC/ILEC?
- h. Were there any books, records, or accounts that were not maintained in accordance with GAAP? Were there any leases that were not accounted for in accordance with GAAP?
- i. Did any directors or officers of the company serve simultaneously as a director and/or officer of any Verizon BOC/ILEC?
- j. Were any employees of the company employed simultaneously by any Verizon BOC/ILEC?
- k. Did the company have any recourse, in any manner, to any Verizon BOC's/ILEC's assets?
- l. Were any assets sold or transferred between any Verizon BOC/ILEC and the company?

If the answer to any of the above questions is "yes", then perform the relevant procedures for Objectives I-IV, and disclose in the report.

- 3. Perform Procedure 1 related to complaints under Objectives V/VI. Examine and report on all complaints filed with either the FCC or the state commissions against the operations of these companies in the Verizon states formerly served by Bell Atlantic and NYNEX.
- 4. Inquire of management as to the existence of any affiliate transactions and/or relationships between these affiliates and the Verizon BOCs/ILECs, and obtain details of all such transactions. If there are any such affiliate transactions, perform the relevant procedures for Objectives V/VI through Objective XI to determine whether these transactions were compliant with the structural, transactional, and nondiscrimination requirements of Section 272 of the Act, and disclose in the report.
- 5. Obtain from management representation letters as listed in paragraphs 22, 23, and 24 of these procedures, and disclose in the report any instances of noncompliance revealed by the company.

C. For the following 272 affiliate: VSSI

Perform all procedures under Objectives I through XI.

D. Relationship between 272 affiliates, other than those mentioned above, and ILECs:

Inquire of management as to whether any relationship in terms of structural, transactional and nondiscrimination requirements exists between Bell Atlantic Communications, Inc. (d/b/a Verizon Log Distance); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions; Verizon Global Networks, Inc.; and Verizon Global Solutions. Whenever such a relationship exists, perform the relevant procedures and disclose in the report.

Follow-up Procedures on the Prior Engagement

1. The following matters were noted in the prior engagement:
 - a. PwC analyzed all 839 agreements that were posted on Verizon's web sites and found that not all postings were timely and that there were omissions and inaccuracies in some postings (V&VI-6 in prior report, V&VI-5 in this program).
 - b. The results of some performance measurement data examined in the course of the audit raised issues concerning compliance with the requirements in Section 272(e)(1). This Section requires that Verizon's BOC/ILECs complete requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (VIII-3 in prior report, VIII-4 in this program).
 - c. The seven performance measurements provided to auditors for examination are not the same as the six performance measurements that Verizon, in its application for Section 271 authorization in New York State, demonstrated that it would maintain for evaluating the BOC's compliance with its Section 272(e)(1) nondiscrimination obligations (VIII-3 in prior report, VIII-4 in this program).
 - d. The BOC continued to provide real estate services to Bell Atlantic Global Networks, Inc. (BAGNI), one of Verizon's 272 affiliates, after the agreements/contracts for the services had expired (V&VI-5 in prior report, V&VI-4 in this program).
 - e. Verizon was unable to provide data necessary to determine Fair Market Value (FMV) at the unit charge level for 49 of 70 transactions selected for examination to determine whether charges made were based on the appropriate Commission-required pricing method--Fully Distributed Cost (FDC) or FMV. Also, the Section 272 affiliate was charged an amount other than FDC or FMV for 9 of the 70 transactions examined (V&VI-9 in prior report, V&VI-6 in this program).
2. When performing the procedures related to the above matters (V&VI-4, V&VI-5, V&VI-6, and VIII-1 to VIII-6 in this program), the practitioner should note in the report whether these matters continued to exist beyond the previous engagement period, what action management took to ensure their non-recurrence or improvement, and the effective date.

Procedures for Structural Requirements

OBJECTIVE I. Determine whether the separate affiliate required under Section 272 of the Act has operated independently of the Bell operating company.

STANDARDS

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its Section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. Section 53.203(a)(1) and First Report and Order, para. 15, 158, 160)
- A Section 272 affiliate shall not perform operating, installation or maintenance functions associated with the BOC's facilities. Likewise, a BOC or any BOC affiliate, other than the Section 272 affiliate itself, shall not perform operating, installation or maintenance functions associated with the facilities that each Section 272 affiliate owns or leases from a provider other than the BOC with which it is affiliated. (See 47 C.F.R. Section 53.203(a)(2), (3) and First Report and Order, para. 15, 158, 163)
- To the extent that research and development is a part of manufacturing, it must be conducted through a Section 272 affiliate. If a BOC seeks to develop services for or with its Section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to Section 272(c)(1). (See First Report and Order, para. 169)

PROCEDURES

1. Inquire of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the Section 272 affiliates covered in the first Biennial Audit and/or there have been any legal and/or "doing business as" (DBA) name changes since the last engagement period. Inspect the certificate of incorporation, bylaws, and articles of incorporation of each Section 272 affiliate, not included in the first Biennial Audit, to determine whether these affiliates were established as corporations separate from the Verizon BOC/ILEC. Note in the report the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) and confirm, as appropriate, with legal representatives of the Verizon BOC/ILEC, Section 272 affiliates, and Verizon Communications, the legal, reporting, and operational corporate structure of the Section 272 affiliates. Disclose these facts in the report. Document and disclose in the report who owns the Section 272 affiliates.
3. Inquire of management, identify and document which entity performs operations, installation and maintenance functions over facilities either owned or leased by each Section 272 affiliate. Obtain management's definition and interpretation of operations, installation, and maintenance (OI&M) functions. Describe in the report management's definition of OI&M. Disclose in the report whether or not any of these services are being performed by the Section 272 affiliates on facilities either owned or leased by the Verizon BOC/ILECs, or whether or not any of these services are being performed by Verizon BOC/ILECs and other affiliates, on facilities either owned or leased by the Section 272 affiliates.
4. Inquire of management to determine whether the Verizon BOC/ILECs perform any R&D activities on behalf of the Section 272 affiliates. If yes, obtain descriptions of research and development (R&D) activities of the Verizon BOC/ILEC for the first **twenty-one months of the engagement period** and note any R&D related to the activities of each Section 272 affiliate. For R&D related to the activities of each Section 272 affiliate, inquire with Verizon BOC/ILEC personnel for more details, such as the extent of R&D provided, progress reports, cost, and whether the Section 272 affiliate has been billed and has paid for this service and disclose in the report. Inquire and disclose in the report as to whether R&D service is offered and/or has been performed when requested by unaffiliated entities.
5. Obtain as of the end of the **twenty-first month of the engagement period** the balance sheet of each Section 272 affiliate and a detailed listing of all fixed assets including capitalized software which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why and disclose in the report by what amount the assets in the Balance Sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. Verify that the detailed listing includes a description and location of each item, date of purchase, price paid and recorded, and from whom purchased or transferred. Disclose in the report any item, including dollar amounts, where any of this information is missing. Inspect title and/or other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, added since January 3, 2001. If any of these documents are not made available, disclose in the report. Look for and make a note of any facilities that are

owned jointly with the Verizon BOC/ILEC and disclose in the report. The balance sheet information obtained in this procedure should also be used to perform Procedure 8 under Objectives V and VI.

OBJECTIVE II. Determine whether the separate affiliate required under Section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.

STANDARDS

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each Section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

PROCEDURES

1. Obtain the general ledger (G/L) of each Section 272 affiliate and match the title on the G/L with the name of the affiliate on the certificate of incorporation to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of the Verizon BOC/ILEC and provide documentation. State in the report whether or not a separate G/L is maintained, if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.
2. Obtain each Section 272 affiliate's financial statements and lease agreements as of the end of the **twenty-first month of the engagement period**. Identify leases for which the annual obligation listed in the lease agreement is \$500,000 or more. Test both leases for which the 272 affiliate is the lessor and leases for which the 272 affiliate is the lessee. For a statistically valid sample of leases, make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.

OBJECTIVE III. Determine whether the separate affiliate required under Section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

- Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its Section 272 affiliate. (See First Report and Order, para. 178.)

PROCEDURES

1. Inquire, document and disclose in the report whether each Section 272 affiliate and the Verizon BOC/ILEC maintain separate boards of directors, separate officers, and separate employees. For each Verizon BOC/ILEC and Section 272 affiliate, obtain a list of the names of directors and officers of the Verizon BOC/ILEC and Section 272 affiliate, including the dates of service for each Board member and officer for the engagement period. Compare the list of names of directors and officers of the Verizon BOC/ILEC with the list of names of directors and officers of the Section 272 affiliate. For those names appearing on both lists, obtain explanations from management and request social security numbers and addresses to ensure that they are not the same individuals. Disclose in the report the number of directors and officers (who have the same social security number and address) who served simultaneously as a director and/or officer of the Verizon BOC/ILEC and Section 272 affiliate.
2. Obtain from their respective Human Resource Departments a list of names and social security numbers of all employees of each Section 272 affiliate and each Verizon BOC/ILEC for the engagement period. Run a program which compares names and social security numbers of employees and document in the workpapers the names appearing on both lists, respectively. For any employee appearing on both lists simultaneously, inquire and document why in the report.

OBJECTIVE IV. Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

STANDARDS

The FCC in 47 C.F.R. Section 53.203(d) indicates that a Section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a Section 272 affiliate that would allow each Section 272 affiliate to obtain credit granting recourse to the BOC's assets. (See First Report and Order, para. 189)
- The BOC parent, or any other non-272 affiliate, cannot sign or co-sign a contract or any arrangement with a Section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (See First Report and Order, para. 189)
- A Section 272 affiliate cannot enter any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (See First Report and Order, para. 189)

PROCEDURES

1. Document in the workpapers each Section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Look for guarantees of recourse to the Verizon BOC's/ILEC's assets, either directly or indirectly through another affiliate, and document those instances and disclose in the report. Major suppliers are those having \$500,000 or more in annual sales (as stated in the agreement or having \$375,000 in sales through the ninth month of the engagement period) to the Section 272 affiliate.
2. Using the lease agreements obtained in Objective II, Procedure 2, document any instances in which each Section 272 affiliate's lease agreements (where the annual obligation is \$500,000 or more as stated in the agreement) have recourse to the assets of the Verizon BOC/ILEC, either directly or indirectly through another affiliate, and disclose in the report.

3. For all debt instruments, leases, and credit arrangements maintained by each Section 272 affiliate in excess of \$500,000 of annual obligations and for a sample of 10 debt instruments, leases and credit arrangements that are less than \$500,000 in annual obligations (judgmental sample), obtain (positive) confirmations from loan institutions, major suppliers, and lessors to attest to the lack of recourse to the Verizon BOC/ILEC's assets. Disclose in the report any recourse noted.

Procedures for Accounting Requirements

OBJECTIVE V. Determine whether the separate affiliate required under Section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

OBJECTIVE VI. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

STANDARDS

The FCC in CC Docket 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, interprets the above requirements further by stating:

- A Section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. Section 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (See 47 C.F.R. Section 53.203(e)). Section 32.27 requires the following:

For transactions involving the sale or transfer of assets or products between the carrier and affiliates:

- a. assets sold to or by the carrier under tariff must be recorded at tariffed rate in the books of the carrier;
- b. nontariffed assets sold to or by the carrier that qualify for prevailing price must be recorded at prevailing price in the books of the carrier. In order to qualify for prevailing price valuation, sales of a particular asset must encompass greater than 50% (25% permissible since January 1, 2002) of the total quantity of such product sold by an entity; 50% (25% permissible since January 1, 2002) threshold is applied on an asset by asset basis rather than on a product line basis;
- c. all other assets sold by or transferred from a carrier to affiliates must be recorded in the books of the carrier at no less than the higher of fair market value or net book cost; (Note: carriers are required to make a good faith estimate of fair market value.)

- d. all other assets purchased by or transferred to a carrier from affiliates must be recorded in the books of the carrier at no more than the lower of fair market value or net book cost;

Exception: Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceeds \$500,000, the asset(s) shall be recorded at net book cost.

For transactions involving the provision of services between the carrier and affiliates:

- a. services provided to or by the carrier at tariff must be recorded at tariffed rate in the books of the carrier;
- b. nontariffed services provided to or by the carrier pursuant to publicly filed agreements submitted to a state commission must be recorded in the books of the carrier at the rate appearing in publicly filed agreements;
- c. nontariffed services provided to or by the carrier that qualify for prevailing price must be recorded in the books of the carrier at prevailing price. In order to qualify for prevailing price valuation, sales of a particular service must encompass greater than 50% (25% permissible since January 1, 2002) of the total quantity of such service sold by an entity; 50% (25% permissible since January 1, 2002) threshold is applied on a service by service basis rather than on a service line basis;
- d. all other services provided to a carrier by an affiliate must be recorded in the books of the carrier at no more than the lower of fair market value or fully distributed cost.
- e. all other services provided by the carrier to an affiliate must be recorded in the books of the carrier at no less than the higher of fair market value or fully distributed cost.

Exception: Threshold. Carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the service does not reach or exceeds \$500,000, the service shall be recorded at fully distributed cost.

f. Fully distributed cost is determined by following the standards contained in 47 C.F.R. Section 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs which cannot be directly assigned are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs which cannot be apportioned on any cost-causative basis will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

- A BOC and a Section 272 affiliate may provide in-house services to one another, except for operating, installation, or maintenance services. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (See CC Docket No. 96-149, First Report and Order, para 180)
- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (See CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)
- The separate affiliate must provide a detailed written description of the asset transferred or service provided, together with the specific price, frequency, and the terms and conditions of the transaction on the Internet within 10 days of the transaction through the company's home page. (Note: a transaction is deemed to have occurred once the BOC and its affiliate have agreed upon the terms and conditions of the transaction, not when the service is actually performed or the asset actually sold.) These descriptions should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC and must contain a certification statement identical to that included in the ARMIS

Reports. This certification statement declares that an officer of the BOC has represented that to the best of his knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (See CC Docket No. 96-150, Report and Order, para. 122)

- Affiliate transaction rules apply to transactions between the BOC and each Section 272 affiliate; between each Section 272 affiliate and a nonregulated affiliate, that ultimately result in an asset or service being provided to the BOC, i.e., chained transactions. (See CC Docket No. 96-150, Report and Order, para. 183)
- Products and services made available to the Section 272 affiliate and to unaffiliated companies need not meet the 50 % threshold (25 % permissible threshold since January 1, 2002) in order for a BOC to record the transaction involving such products and services at prevailing price. (See CC Docket No. 96-150, Report and Order, para. 137; CC Docket No. 00-199, Report and Order, Appendix F, Section 32.27)
- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its Section 272 affiliate(s) with the exception of joint marketing, which is covered in Section 272(g) of the Act. Unaffiliated entities must have equal opportunity to acquire any such good, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a Section 272 affiliate, it must ensure that the Section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (See CC Docket No 96-149, First Report and Order, para. 218)
- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each Section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265)

PROCEDURES

1. Document in the working papers the procedures used by the Verizon BOC & ILEC to identify, track, respond, and take corrective action to competitors' complaints with respect to alleged violations of the Section 272 requirements. Obtain from the Verizon BOC/ILEC a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716 and any written complaints made to a state regulatory commission from competitors involving the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period. This list should also include outstanding complaints from the prior engagement period, which had not been resolved during that period. The list should group the complaints in the following categories:
 - allegations of cross-subsidies (for Objectives V and VI);
 - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);
 - allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);
 - allegations of discriminatory availability of exchange access facilities (for Objective IX);
 - allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible, and disclose in the report. For those complaints that had been resolved, document and disclose in the report how those allegations were concluded and, if the complaint was upheld, inquire and document and disclose in the report what steps the company has taken to prevent those practices from recurring.

Note: Although applicable to complaints pertaining to Objective V/VI, VII, VIII, IX and XI, this procedure appears only once and will be performed only once for Objectives V/VI, VII, VIII, IX and XI. However, reporting of the results of this procedure should be made under each respective objective.

2. Obtain from the Verizon BOC/ILEC and each Section 272 affiliate, current written procedures for transactions with affiliates. Compare these procedures with the FCC rules and regulations indicated as "standards" above. Note and describe any differences and disclose in the report.
3. Inquire and describe how the Verizon BOC/ILEC and each Section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe in the report type and frequency of training, if any, literature distributed, company's policy, and document the supervision employees responsible for affiliate transactions received. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules. Disclose in the report whether these employees demonstrated knowledge of these rules.
4. Obtain listing of all written agreements for services and for interLATA and exchange access facilities between the Verizon BOC/ILEC and each Section 272 affiliate which were in effect during the first twenty-one months of the engagement period. For a statistically valid sample, obtain copies of written agreements, summarize these agreements, if feasible, otherwise, include copies of relevant pages, and note names of parties, type of service, price, terms, and conditions. Note which agreements are still in effect. For those agreements no longer in effect, indicate the termination date; identify agreements terminated prematurely and document why and disclose in the report. Inquire and document and disclose in the report the provisioning of any service without a written agreement.
5. Using the sample of the agreements obtained in procedure 4, view each company's web site on the Internet and compare the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4 above. Disclose in the report any instance where any item in the agreement does not agree with the corresponding item on the Internet. Using the same sample as above, obtain a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, by physical inspection, determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of the Verizon BOC/ILEC. Describe any differences and inquire why such differences exist and disclose in the report. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within 10 days of their occurrence. Document in the working papers the dates when the agreements in the sample were signed and/or the services were first rendered (whichever took place first) and the dates of posting on the Internet. Inquire and note in the report late postings and reasons when

posting took place after 10 days of signing of agreement or provision of service (whichever took place first). Document in the working papers the procedures the company has in place for posting these transactions on a timely basis. The information provided on the Internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see Docket No. 96-150, Report and Order, para. 122). For example, such disclosures should include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the disclosure should include the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services, the disclosure should include the number and type of personnel assigned to the project, the level of expertise of such personnel (including the associated rate per service unit (e.g. contacts, hours, days, etc)), any special equipment used to provide the service, and the length of time required to complete the transaction. Additionally, the disclosure should state whether the hourly rate is a fully-loaded rate, and whether or not that rate includes the cost of materials and all direct and indirect miscellaneous and overhead costs, for goods and services provided at FDC. If the information disclosed on the Internet is not sufficiently detailed as described above, document and describe in the report any differences and inquire why such differences exist. (See Docket No. 98-121, Memorandum Opinion and Order, para. 337.) Obtain copies of these public postings and include in the working papers.

6. Obtain a listing and amounts of all services rendered by month by the Verizon BOC/ILEC to each Section 272 affiliate during the first **twenty-one months of the engagement period**. For those services made available to the Section 272 affiliate that are not made available to third parties, using a statistically valid sample, compare unit charges to PMP, FDC, or FMV, as appropriate, to determine whether these amounts were recorded in the books of the Verizon BOC/ILEC in accordance with the affiliate transactions rules. When differences exist, note in the report the number of instances and the amount by which each item is greater than or less than the amount required by the rules. Inquire and note reasons for these occurrences in the report. Disclose in the report the differences between the amount the Section 272 affiliate has recorded for the services in its books of account and the amount the Section 272 affiliate has paid for the same services to the Verizon BOC/ILEC.

7. Obtain a listing and amounts of all services rendered by month to the Verizon BOC/ILEC by each Section 272 affiliate during the first **twenty-one months of the engagement period**. Using a statistically valid sample, compare unit charges to tariff rates, PMP, FDC, or FMV, as appropriate, to determine whether these services were recorded in the books of the Verizon BOC/ILEC in accordance with the affiliate transactions rules. When differences exist, note in the report the number of instances and the amount by which each item is greater than or less than the amount required by the rules. Inquire and make a note of reasons for these occurrences in the report. Disclose in the report the differences between the amount the Verizon BOC/ILEC has recorded for the services in its books of account and the amount the Verizon BOC/ILEC has paid for the same services to the Section 272 affiliate.
8. Obtain as of the end of the **twenty-first month of the engagement period** the balance sheet of each Section 272 affiliate and a detailed listing of all fixed assets which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why and disclose in the report by what amount the assets in the Balance Sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. The balance sheet information obtained in this procedure should also be used to perform Procedure 5 under Objective I. For items added since January 3, 2001, perform the following steps:
 - a. For those items purchased or transferred from the Verizon BOC/ILEC, obtain net book cost and fair market value. Inquire and document in the report how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of the Verizon BOC/ILEC at the higher of FMV or net book cost, as required by the Commission's rules in Section 32.27 and disclose in the report.
 - b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from the Verizon BOC/ILEC to other affiliates.
 - c. For those items purchased or transferred from the Verizon BOC/ILEC, either directly or through another affiliate, since January 3, 2001, also inquire and obtain details as to how the Verizon BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities and disclose in the report. Describe and disclose in the report how and upon what basis the Verizon BOC/ILEC decided to transfer/sell the facilities to a Section 272 affiliate instead of an unaffiliated entity.

9. Where assets and/or services are priced pursuant to Section 252(e) (i.e., as approved by the regulatory commissions) or statements of generally available terms pursuant to Section 252(f), for a statistically valid sample of assets and/or services, compare the price the Verizon BOC/ILEC charges each Section 272 affiliate to the stated price in the publicly-filed agreements or statements and document any differences in the report.
10. Inquire and obtain details as to whether any part of the Verizon BOC/ILEC's Official Services network was transferred or sold to a Section 272 affiliate since January 3, 2001. In addition to the requirements for Procedure 8, for any transfer or sale of Official Services network assets on or after January 3, 2001, inquire and obtain details as to how the Verizon BOC/ILEC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the Verizon BOC/ILEC decided to transfer/sell the facilities to a Section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

Procedures for Nondiscrimination Requirements

OBJECTIVE VII. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a Section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)
- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates Section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)
- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)
- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its Section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

NOTES:

- (i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in Section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.

- (ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see Section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the Section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see Section 272(g)(1) of the Act).
- in establishing or adopting any standards that favor its Section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)
- in developing new services solely for its Section 272 affiliate(s). (See First Report and Order, para. 210)
- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its Section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)
- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

NOTE:

A BOC's obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange service. A caller orders "new service" when the customer either receives service from the BOC for the first time, or moves to another location within the BOC's in-region territory. (See *In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a Section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

PROCEDURES

1. Obtain and inspect the Verizon BOC's procurement awards to each Section 272 affiliate during the first **twenty-one months of the engagement period** and inspect bids submitted by each Section 272 affiliate and third party, note terms, and discuss with Verizon BOC representatives how the selection was made and disclose in the report. Compare this practice with the Verizon BOC written procurement procedures and note any differences. Disclose in the report all instances of procurement awards given to the Section 272 affiliates where the terms of bids submitted by third parties were more favorable than those submitted by the Section 272 affiliates. Disclose in the report the differences between the terms submitted by the Section 272 affiliates and other bidders.
2. Obtain a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI as defined in Section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to each Section 272 affiliate by the Verizon BOC/ILEC. For a statistically valid sample of items from this list, inquire and obtain copies of the media used by the Verizon BOC to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. Disclose in the report the results of this procedure.
3. Obtain a list from the Verizon BOC of all unaffiliated entities who have purchased the same goods, as the Section 272 affiliates, (including software), services, facilities, and customer network services information (excludes CPNI) from the Verizon BOC, during the first **twenty-one months of the engagement period**. **Provide preliminary monthly data to the Joint Oversight Team. Based on the preliminary data,** the Joint Oversight Team will select a month for testing. For the month selected by the Joint Oversight Team, describe what goods, services, facilities, and customer network services information were purchased and the extent of purchases made. Select a statistically valid sample of such purchases and compare the rates, terms, and conditions of the sampled items to the rates, terms, and conditions of the items purchased by each Section 272 affiliate. Note any differences and disclose in the report. For the sampled items, document the amount each Section 272 affiliate was billed and the amount paid for the same items purchased from the Verizon BOC and disclose differences in the report.
4. Document and disclose in the report how the Verizon BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each Section 272 affiliate and to unaffiliated entities. Note any differences in the report.